

AIR COMMAND AND STAFF COLLEGE

AIR UNIVERSITY

RISING CAPITAL:  
THE IMPACT OF CHINA'S ECONOMIC GROWTH ON  
U.S. NATIONAL SECURITY

by

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## Contents

	<i>Page</i>
DISCLAIMER .....	ii
FIGURES AND TABLES .....	iv
PREFACE .....	v
ABSTRACT .....	vi
SECTION 1: INTRODUCTION .....	1
SECTION 2: ISSUE BACKGROUND AND SIGNIFICANCE .....	4
China's Economic Growth .....	4
China's International Involvement and Influence .....	8
China's Expanding Military .....	9
SECTION 3: LITERATURE REVIEW .....	14
China .....	14
Economic Policy .....	14
Foreign Policy .....	18
Military Strategy .....	20
US Policy Concerning China .....	24
Previous Scenario-Planning Projects .....	27
SECTION 4: DRIVING FORCES .....	30
SECTION 5: FOUR FUTURES .....	33
The Matrix of Possible Futures .....	33
Supported Slump .....	34
Competitive Coalition .....	37
Totalitarian Threat .....	40
Isolated Instability .....	43
SECTION 6: CONCLUSION AND RECOMMENDATIONS .....	46
Summary of Findings .....	46
Areas of Further Research .....	48
Recommendations .....	48
NOTES .....	52
BIBLIOGRAPHY .....	65

## Figures

Figure 1: Annual Percentage GDP Growth Rate of Largest World Economies.....	4
Figure 2: US Trade With China (selected years from 1980-2010).....	6
Figure 3: Widening Rural-Urban Income Gap .....	7
Figure 4: China's First Island Chain.....	11
Figure 5: Disputed Territory in South China Sea .....	11
Figure 6: China's GDP per capita (in US dollars) from 2000-2010.....	16
Figure 7: Correlation of China's Exports and GDP Growth.....	17
Figure 8: Framework of Selected Critical Uncertainties .....	31
Figure 9: Matrix of Possible Futures .....	34

## Tables

Table 1: Prioritization and Classification of Driving Factors .....	30
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## Preface

I became interested in China in 2006, when I conducted an open-source project on China's modernization efforts. In 2010, I was fascinated by media coverage of China's economic rise while the rest of the world was still struggling to recover from the global economic crisis. During the same time period, I read a *Foreign Affairs* article by Robert Kaplan titled "The Geography of Chinese Power: How Far Can Beijing Reach on Land and at Sea?" Kaplan's article covered China's geography, energy, regional disputes, growing military, and explored inevitable and possible impacts of China's growing economic and military capabilities.

This research began with the general question of "how do China's growing capabilities impact the United States?" As I refined the purpose of this study, I was determined not to focus solely on China's military. The US government and military were already heavily focused on China's technological advancements. Then I came across an Air Force study, which had created possible alternate futures for the year 2025 as a 30 year predictive outlook. In one future, China rose to superpower status peacefully via its economic growth. I wondered if a peaceful rise for China was possible, and how the United States would be affected. From a military vantage point, the threats of hostile intent and military build-up are well-understood. In contrast, this study examined the more obscure: impacts of China's economic development, and what it means for US national security.

I gratefully acknowledge my research advisors, Dr. Greg Intoccia and Colonel Hittmeier, and my husband, Major Geoffrey Dawson, for their consistent guidance, encouragement and support during the research, analysis, and development of this paper.

## **Abstract**

China's accelerated rise as an economic power heightens existing concerns of its economic stability, and how China will employ its growing international influence and advancing military capabilities. The purpose of this paper is to determine the potential consequences of China's economic growth on US national security.

The scenario planning framework is used to identify the trends and uncertainties of China's national policies, possible outcomes of China's decision-making, and the ensuing impact to US national security. This paper shows that China's emergence as a power is inevitable. US economic dependence on China increases risk of economic decline, while independence from China's economy can promote long-term US growth. US economic strength and perceptions of China influence US policy on military planning and the defense budget, impacting future military capabilities and the ability to counter a future strategic threat.

The United States must recognize that China is a current strategic competitor, and understand the US role in shaping perceptions. The United States should maintain military presence and cooperation in Asia, but reduce economic dependence on China. US policy should reflect how to address current and future challenges posed by China.

## **Section 1: Introduction**

In today's global world, a rise in economic power can enhance a nation's ability to influence and leverage the international community, having an impact on politics and commerce worldwide. China's rapid rise to the second largest economy in the world, and its continued economic growth elicit US concerns on how China will utilize its new economic power.<sup>1</sup>

China is in a position to influence global policies, invest in foreign ventures, and provide financial aid to countries within and beyond the Asia sphere of influence. However, China's foreign policy, which is centered on securing energy resources and ensuring access to trade, could run counter to US interests<sup>2</sup>. China's economic growth increases the demand for energy sources, creating the need for closer ties with oil suppliers such as Iran, Sudan, and Syria, which are adversarial to the United States, and are considered state sponsors of terrorism. In the past, China's commercial interests have led the Chinese government to side with these same countries on matters of international concern, such as nuclear development, weapons proliferation, support to terrorism and human rights.

China's economic growth has strengthened its national confidence towards achieving its strategic objectives, two of which are "defending national sovereignty and territorial integrity; and securing China's status as a great power."<sup>3</sup> China's economic growth has enabled it to allocate more money towards modernizing its military infrastructure, which is significantly upgrading its existing capabilities. Current capabilities include intercontinental ballistic missiles capable of targeting the United States, and the maritime mission and range to affect passage through the Western Pacific.<sup>4</sup> This year, possibly emboldened by its new economic power, China had multiple maritime incidents with Japan, Vietnam, and the Philippines over disputed waters in energy-rich and strategic areas. China's actions could threaten regional stability, and

restrict freedom of movement for one-third of world shipping, including one trillion dollars in trade annually with the United States.<sup>5</sup>

However, China's leaders emphasize that theirs is a "peaceful rise." The World Bank applauds China's regional economic leadership, and some believe a prosperous China would be mutually beneficial to the United States. At the same time, some prominent economists raise concerns that China's high rate of economic growth, due to its reliance on exports and increased credit,<sup>6</sup> combined with currency manipulation, and increased public debt could lead to inflation and economic recession.<sup>7</sup>

Given the uncertainty in how China will exercise its growing economic power via its political and military instruments of power, this research explores the question: How will China's developing economic power likely affect the national security of the United States, and what is the range of potential contributing factors?

This paper will show that China's developing economic power is likely to result in an increased threat to US national security, a decline in US economic power, or both due to China's increasing ability to project power regionally and globally, and the effects of global trade.

Though interests often diverge in the political and military arenas, China and the United States are linked economically. China is the largest US supplier of goods imports, and the third largest export market, and holds 26.2 percent of foreign-held US Treasury securities.<sup>8</sup> The United States benefits from China's low cost goods, labor and production, and growing export market.<sup>9</sup> US Treasury Securities help finance the federal deficit, which allows lower US interest rates.<sup>10</sup> China's ability to sustain its own economy will have a related effect on the US capability to attain economic strength. A market crash in China, an increase in costs, or a decrease in trade would have a negative impact on the US economy.

As the world superpower, the United States has a vested interest in global affairs to ensure national security, including assist allies and promoting democratic norms abroad in the hopes of securing the greater likelihood of peace. According to the US *National Security Strategy*, the top national security priorities are non-proliferation, counter-terrorism, economic strength, fundamental human rights worldwide, and a peaceful and just international order.<sup>11</sup> A cooperative China would assist in each of these areas, making China a valuable global partner. However, China could pose a hindrance, or threat, due to its trade partners, economic decisions, internal policies, or aggressive behavior.

Although the impact of China's economic well-being, decisions, and intent to the United States is apparent, the future outcome is uncertain. To address the uncertainty, the scenario planning framework is employed in this paper to explore the possible futures and impacts of China's economic growth. Scenario planning is a tool to identify forces of change, examine different combinations of those forces, and generate possible outcomes, using the five-phase model from *What If? The Art of Scenario Thinking for Non-profits*.<sup>12</sup>

The five phase approach is orient, explore, synthesize, act and monitor.<sup>13</sup> Section two provides background and significance information to orient the reader with the challenges of China's economic rise and possible impacts to the United States. Section three explores the issue in-depth to discover the forces of change, or driving forces, that shape future outcomes. Section four establishes the driving forces that are most relevant, predetermined, and uncertain of China's economic development. Section five synthesizes the selected driving forces and develops the possible futures. Finally, section six attempts "to inform and inspire action" with indicators and trends for further research, and to adjust action as necessary.<sup>14</sup>

## Section 2: Issue Background and Significance

China's economic growth alone is not significant or problematic. China's rate and imbalance of economic growth, rapid increase in energy consumption and internal stability all influence its ability to sustain the growing economy. China's involvement in the international community is a factor in its economic development, and a source of controversy with the United States. China's expansion of military missions and capabilities are supported by increased economic growth and international involvement, but raise doubts about its peaceful rise. This section summarizes recent impacts of the employment of China's instruments of power.

### China's Economic Growth

Economic growth is measured by a nation's gross domestic product (GDP), or its total income. China has averaged 10 percent GDP growth since 1981, compared to the US average of 2.7 percent and Japan's 2.1 percent (see Figure 1).<sup>15</sup> China's high rate of economic growth is consistent with emerging economies,<sup>16</sup> but its actions in 2008 accelerated its rise as a regional and global economic power.

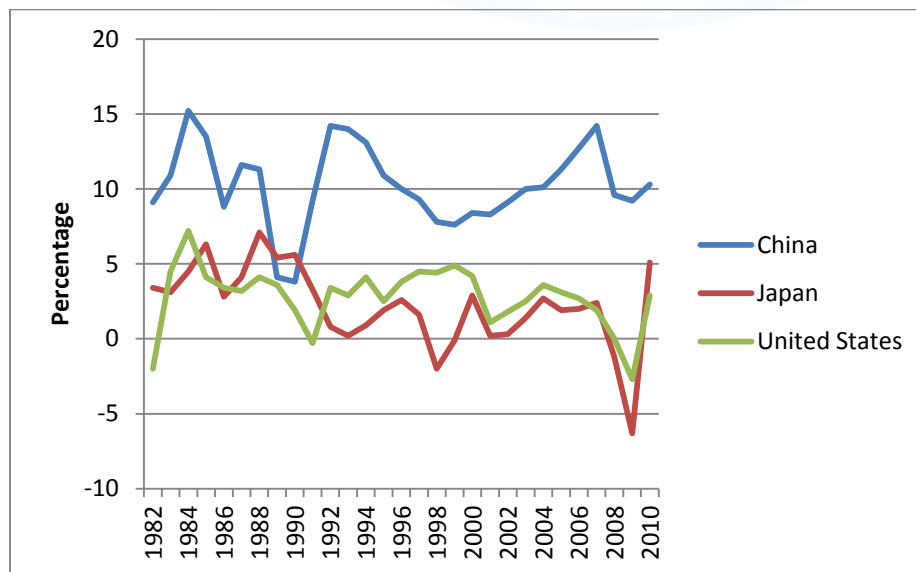


Figure 1: Annual Percentage GDP Growth Rate of Largest World Economies  
Data Source: The World Bank<sup>17</sup>

The 2008 global economic crisis was a domino effect of individuals, banks, and companies defaulting on mortgages and loans in the United States. As a by-product of global trade, economies worldwide were negatively impacted, including the European Union (EU) and Japan. Leading up to the crisis, China's exports constituted more than one-third of its GDP, and its top two export destinations were the EU and the United States.<sup>18</sup> To protect its economy from the impending impact to its export market, China eased monetary policies to encourage domestic spending, facilitate bank lending, and finance a stimulus program to boost investment.<sup>19</sup>

As the major world powers were struggling to survive, the most populated nation in the world invested and manufactured its way to the top. In 2008, China significantly increased its investments in US Treasury securities, surpassing Japan as the leading foreign US creditor.<sup>20</sup> In 2009, China led East Asia's economic rebound, while replacing Germany as the largest exporter and the United States as the largest automobile market in the world.<sup>21</sup> Securing its place as a regional and global economic leader, China surpassed Japan again to become the second-largest economy in the world.<sup>22</sup>

China's economic growth creates fiscal challenges for the United States due to the increasing trade imbalance, and China's undervalued currency. China is the largest US supplier of goods imports, and the third largest export market. However, since 1990, the United States consistently imports more than four times what is exported to China (see Figure 2). The US-China trade balance in 2010 was negative \$273 billion, and is expected to increase in 2011 to negative \$313 billion.

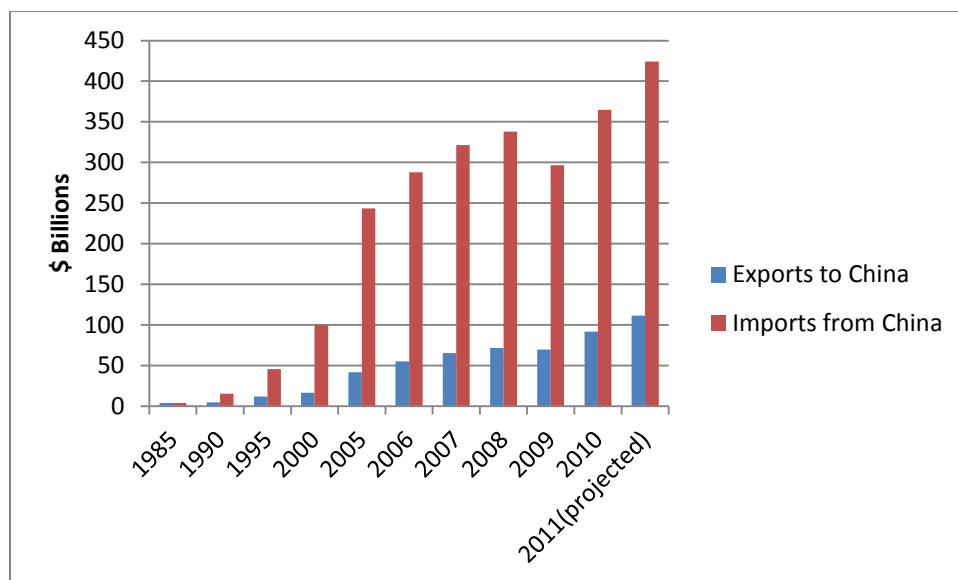


Figure 2: US Trade With China (selected years from 1980-2010)

Data Source: US International Trade Commission DataWeb<sup>23</sup>

Despite accelerated economic growth, China maintains its currency, the *yuan renminbi* (RMB), at an undervalued rate in relation to the dollar, rather than allowing it to change with the market-based exchange rate.<sup>24</sup> Currently, Chinese exporters, usually paid in US dollars, benefit from the currency manipulation because their income is worth more in RMB than it should be. Therefore, US goods imported to China cost more than they should, while low-cost Chinese goods are imported to the United States. The imbalance creates unfair competition and has resulted in “the loss of hundreds of thousands of U.S. jobs.”<sup>25</sup> The RMB appreciated 21.1 percent from 2001-2009,<sup>26</sup> but its GDP during the same time period grew over 50 percent. From June 2010-August 2011, the RMB appreciated six percent, but US critics maintain the RMB must appreciate more rapidly.<sup>27</sup> China argues that its diversified trading partners warrant a “scientific and reasonable exchange rate level” based on a “multi-currency basket,” and that rapid appreciation would destabilize the Chinese economy.<sup>28</sup> The US Treasury counters that increasing the value of the RMB would actually decrease Chinese inflation and promote domestic growth.<sup>29</sup>

China's economic growth brings challenges of its economy potentially overheating, associated energy consumption, and the increasing rural-urban income gap. Overheating is when prolonged economic growth leads to high inflation and overproduction of goods, creating more supply than demand, and ending in recession.<sup>30</sup> China's leaders have adjusted their country's financial policies to prevent inflation, but must take further action to reduce dependence on exports, and promote stable domestic growth. China's energy consumption from 2000-2010 was five<sup>31</sup> times greater than the previous decade, and the International Energy Agency expects additional increases since China's individual (per capita) consumption of energy is much lower than in Western economies.<sup>32</sup> The rural-urban income gap continues to widen and hit its peak in 2010, despite a higher percentage increase in the rural income (see Figure 3). The widening gap threatens stability due to increasing tensions, protests, and urban migration, which also increases unemployment and crime.<sup>33</sup> China's ability to overcome economic challenges would benefit the global economy, and improve international perception of China as a responsible economic leader.

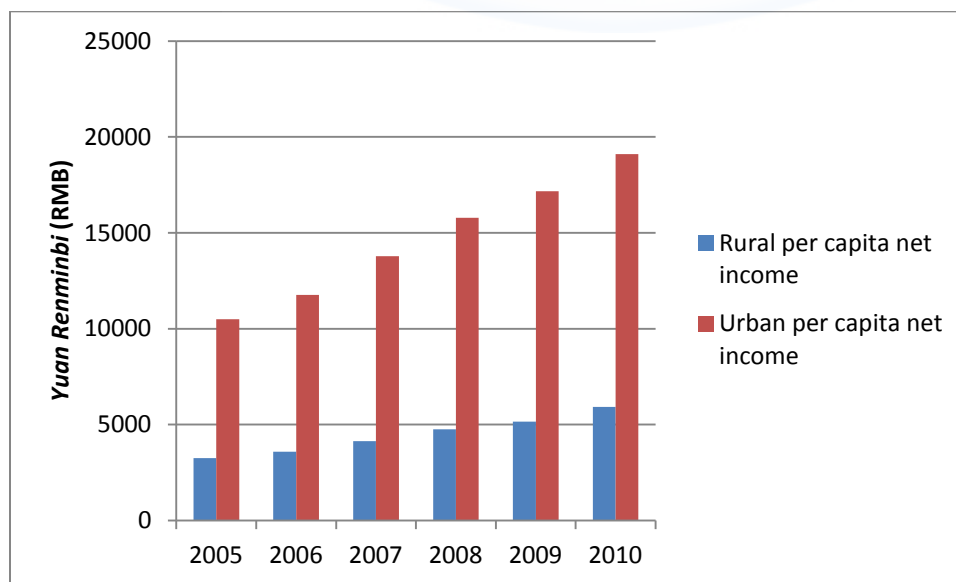


Figure 3: Widening Rural-Urban Income Gap  
Data Source: National Bureau of Statistics of China<sup>34</sup>

## **China's International Involvement and Influence**

Membership in an international institution provides governmental legitimacy, is an agreement to comply with established standards, and the opportunity to influence future international policy. The People's Republic of China (PRC) crossed the international threshold in 1971 upon its long-awaited acceptance to the United Nations.<sup>35</sup> Supplanting the Republic of China, the PRC became one of the five permanent members of the United Nations Security Council (UNSC), which holds considerable weight in decisions on whether to apply economic sanctions or military force. In 1979, China opened its economy to foreign investment and trade, and within a decade gained membership to several hundred international and regional organizations, including the World Bank and the International Monetary Fund.<sup>36</sup> China benefited economically from participation in the international community, but for the first two decades maintained a relatively passive role, using the opportunity to learn more about Western politics and economics.<sup>37</sup>

With economic development, China gained recognition as a responsible economic leader. China obtained membership to both the World Trade Organization (WTO) and the Group of 20 (G-20), so now has a part in influencing the policies and agreements that govern international trade and promote a strong global economy. Regionally, China fosters closer ties towards ensuring open dialogue and markets. China and the Association of Southeast Asian Nations (ASEAN) established an ASEAN-China free trade area (ACFTA) in 2003.<sup>38</sup> China, Russia and four central Asian nations comprise the Shanghai Cooperation Organization (SCO), originally established to resolve border disputes, but now is a "forum to discuss trade and security issues, including counterterrorism and drug trafficking."<sup>39</sup> China has free trade agreements with 31 countries,<sup>40</sup> and is increasing its role in international security cooperation. Closer regional

economic integration, as currently exists in bilateral or multilateral agreements that exclude the United States, could result in a decline in trade or increase in trade costs, affecting US businesses and income.

Additionally, China's international role is a contentious issue for the United States. In June 2010, China supported UN sanctions against both North Korea and Iran, which benefit US national security. However, China protected its own interests by requiring "continued foreign investment in Iran's oil and gas sector."<sup>41</sup> China is the only major economy and permanent UNSC member that continues to invest in Iran's energy sector, and may be circumventing sanctions by supplying restricted materials.<sup>42</sup> China's leverage of the UN for commercial interests could result in an increased threat to US national security.

### **China's Expanding Military**

One element of China's international involvement is its expansion of the People's Liberation Army (PLA) missions to include peacekeeping, humanitarian assistance, anti-piracy, and participation in foreign military exercises. International security cooperation has been considered an aspect of Chinese diplomacy as early as 1998.<sup>43</sup> However, in 2004, a new military policy emphasized international security cooperation as a PLA mission for "safeguarding China's expanding 'national interests' and in 'ensuring world peace.'"<sup>44</sup> Of the five permanent members of the UNSC, China is the leading contributor of UN peacekeeping forces, which increased steadily from only 359 personnel in 2004, to its current monthly support of approximately 2,000 personnel.<sup>45</sup> China's peacekeeping support varies from individual mission experts to small groups of police to large contingents of military; deployed in support of UN missions in Haiti, Cyprus, Timor-Leste, Israel and throughout Africa.<sup>46</sup> Recently, China provided its largest humanitarian aid package to Pakistan for flood relief, which included \$250 million,

helicopters, search and rescue teams, and a medical team.<sup>47</sup> Since 2008, China has deployed its navy to support international anti-piracy operations in the Gulf of Aden, located between Yemen and Somalia.<sup>48</sup> In 2010, China participated in 32 exercises with foreign militaries, including Brazil, Peru, Albania, and Turkey.<sup>49</sup> These exercises covered a range of missions, including counter-terrorism, peacekeeping, and search and rescue; but also maritime drills, live fire ground forces training, and air operations.<sup>50</sup> Moreover, China's military contributions are improving international perceptions and its foreign relations, while providing China with significant training, operational experience, and a valid reason to upgrade its military capabilities.

The primary focus of China's PLA modernization is in deterring Taiwan from obtaining independence from mainland China.<sup>51</sup> Since the US Navy is the premier force in the Western Pacific, China aims to improve the capabilities of the PLA Navy, specifically to counter possible US intervention.<sup>52</sup> The US opposes either China or Taiwan resolving the dispute unilaterally, and supports a peaceful resolution. However, the United States also supports Taiwan having a viable self defense capability, so sells defensive weapons to Taiwan, such as helicopters, air and missile defense systems, and mine-hunting ships.<sup>53</sup> In 2010, China protested US arms sales to Taiwan, not with a direct military response, but ceasing military-to-military relations with the United States for eight months.<sup>54</sup>

Despite the non-military response, China continues to improve its ability to conduct an "anti-access and area-denial strategy" in the Western Pacific.<sup>55</sup> China improved littoral warfare and area air defense capabilities with new patrol boats, and surface combatants equipped with more advanced anti-ship and surface-to-air missiles.<sup>56</sup> The PLA Navy is adding over-the-horizon radars to early warning, reconnaissance and surveillance equipment and aircraft to further enhance targeting capabilities.<sup>57</sup> Current projects in development, such as its first aircraft

carrier, a new class of nuclear powered submarines with longer range missiles, and a naval base at the southern tip of Hainan (see Figure 4) will extend China's reach.<sup>58</sup>



Figure 4: China's First Island Chain<sup>59</sup>



Figure 5: Disputed Territory in South China Sea<sup>60</sup>

Although China has not instigated any military incidents with Taiwan since 2008, China has flexed its naval muscles toward countries in the “first island chain” over the issue of territorial demarcations. The first island chain (see Figure 4) runs through the East and South China Seas, and is a main sea line of communication (SLOC) with southwest Asia and Africa. From China's point of view, it forms a maritime defensive line extending out from China's mainland.<sup>61</sup> China claims the waters and islands in the East and South China Seas (see Figure 4), but so do Japan, Vietnam, Malaysia, Brunei, Philippines, and Indonesia. Disputes in the 1970s over the resource-rich and strategic areas led to the 1982 UN Convention on Law of the Sea (UNCLOS) establishing exclusive economic zones (see Figure 5).<sup>62</sup> Exclusive economic zones give the coastal nation “sovereign rights for the purpose of exploring and exploiting” resources.<sup>63</sup>

Although the UNCLOS did not resolve the disputes, maritime conflicts decreased in the 1990s. China's increasing reliance on the sea lanes for goods and resources, and the economic benefit of international cooperation made China recognize the need for regional cooperation and stability. In 1997, China and Japan signed a bilateral agreement for managing fishery resources

in the East China Sea.<sup>64</sup> Then, in 2008, they created a joint oil and gas development zone, where Japan can develop according to Chinese law.<sup>65</sup> In 2002, China signed a multilateral agreement with ASEAN to resolve territorial disputes in the South China Sea peacefully and to refrain from activities that would escalate tensions.<sup>66</sup>

However, in March 2010, Chinese officials stated that sovereignty in the South China Sea was a “core interest,” and China would not tolerate outside interference. The next month, two Chinese submarines and eight destroyers passed very close to Japan in the East China Sea.<sup>67</sup> A Chinese fishing vessel crashed into two Japanese patrol boats near the disputed Diaoyu/Senkaku islands, and in June 2011, Chinese warships conducted naval drills near Japanese islands.<sup>68</sup> China had multiple altercations with Vietnam, and the Philippines regarding oil exploration in the South China Sea. Also in June 2011, China’s Foreign Ministry spokesman asserted that “China has indisputable sovereignty over the South China Sea islands and adjacent waters.”<sup>69</sup> Analysts speculate the reason for China’s change in maritime posture. Possible explanations range from China building national confidence to intelligence gathering to testing of regional and US responses. Regardless, China’s maritime posturing indicates a more aggressive military stance, rather than compliance with UN law, diplomatic agreements or a peaceful rise.

According to US Department of Defense estimates, China spent over \$160 billion in military expenditures in 2010.<sup>70</sup> China’s officially disclosed numbers continue to be much lower, as increased international involvement has not produced greater transparency in China’s military budget. Currently, less than 50 percent of China’s military platforms are considered modern, which is defined as submarines with anti-ship cruise missiles, fourth-generation aircraft, and advanced long-range surface to air missile systems.<sup>71</sup> However, projected developments,

such as the fifth-generation J-20 stealth fighter and longer-range ballistic missiles, would increase China's strike and power projection capabilities.<sup>72</sup> Beyond the traditional domains, China invests in advanced systems for electronic warfare, counterspace, and computer network operations.<sup>73</sup> China uses covert and illegal means to acquire foreign technologies, which contributes to modernization efforts. In 2010, one US and one Chinese national were convicted for providing China with US classified and encryption technology related to cruise missiles, communications equipment, and Global Positioning System equipment.<sup>74</sup>

China is a growing economic, political and military force. China's current and future decisions have regional and global implications, ultimately affecting US national security interests. China's ability to sustain its economy and its economic policies have a direct impact on the US economy. China's international involvement could be counter to US interests, while its closer regional ties could result in a decline in the US economy. China's military advances and aggressive actions could affect regional stability and provoke a US response. Section three will explore the policies and driving forces that govern China's instruments of power.

### **Section 3: Literature Review**

Scholars and journalists have written extensively about China to monitor and analyze each milestone in its economic development, international involvement, and technological innovations. Government and military entities have reported on statistics, trends and impacts of China's decisions and actions to the United States. This section explores the driving factors of China's economic, political, and military instruments of power, and the possible impacts on the national security of the United States.

#### **China**

A historical look at China's policies and decisions demonstrate that China's economy, energy security and foreign policy are closely linked. Past impacts, current trends, and projected indicators suggest how China's current and future policies could affect the United States.

#### **Economic Policy**

China's economic policy has changed over the years to increase growth and development, to adjust to different leadership philosophies, and in response to its own position in the global community. Communism gives the government authority and control to institute the changes deemed necessary, but its embrace of the market economy is the foundation of its economic growth.

According to the Library of Congress country study on China, China's economy through the late 1980s "was a system in transition" as it sought to balance state control with a market economy.<sup>75</sup> The Soviet Union helped China to establish the First Five-Year Plan (1953-1957), which centralized economic planning and focused on economic growth, industry, and technology.<sup>76</sup> Chinese leaders were unhappy with the results of the First Five-Year Plan, and made changes to the subsequent economic plans, including delegating economic decision-

making authority and adding agricultural production as an objective. However, it was not until 1979 that real reform began. China slowly adopted aspects of a market economy, reducing the government's direct control, allowing its citizens to earn a profit, and supporting both domestic and foreign free enterprise.

China's entry to the international community aided its economic development. Strict controls protected its economy from high-risk investments and over-reliance on foreign capital, which provided an opportunity to distinguish itself as a regional economic leader. The 1997 Asian Financial Crisis resulted from a series of financial declines in Asian markets, including reduced foreign investments, import revenues and values of local currency.<sup>77</sup> The crisis weakened the economies primarily of ASEAN member nations, but also of Japan, the United States, EU and Russia. China, largely unaffected by the crisis, could have taken advantage of the situation by devaluing its currency to boost its export market. Instead, China considered the impact to regional stability, and maintained the RMB, which made it a less competitive market among the Asian nations. Additionally, China supported regional recovery with financial aid and increased its imports from ASEAN countries.<sup>78</sup> China's actions improved international perceptions and fostered closer ties with ASEAN nations. As a result, China-ASEAN trade increased, but ASEAN trade with the United States and Japan decreased.<sup>79</sup>

By the following decade, China's overall economy had benefited from international involvement, including acceptance to the WTO in 2001. Hu Jintao became president in 2003 and to address domestic unrest, shifted economic focus from rapid economic development to even distribution of wealth.<sup>80</sup> China's Eleventh Five-Year Plan (2006-2010) emphasized stabilization, energy security and improvements to rural society. Although this was during the time of the global economic crisis, China far exceeded its primary quantifiable target to double

the 2000 GDP per capita.<sup>81</sup> According to the World Bank, in US dollars, China's GDP per capita in 2000 was \$949, and in 2010 was more than four times at \$4,393 (see Figure 6). Increased efforts in the rural sector also resulted in a higher percentage increase in the rural income over urban income in 2010. Despite successes, China's rate of growth was uncontrolled, the rural-urban income gap continues to widen, and rural access to healthcare and education remain domestic challenges.

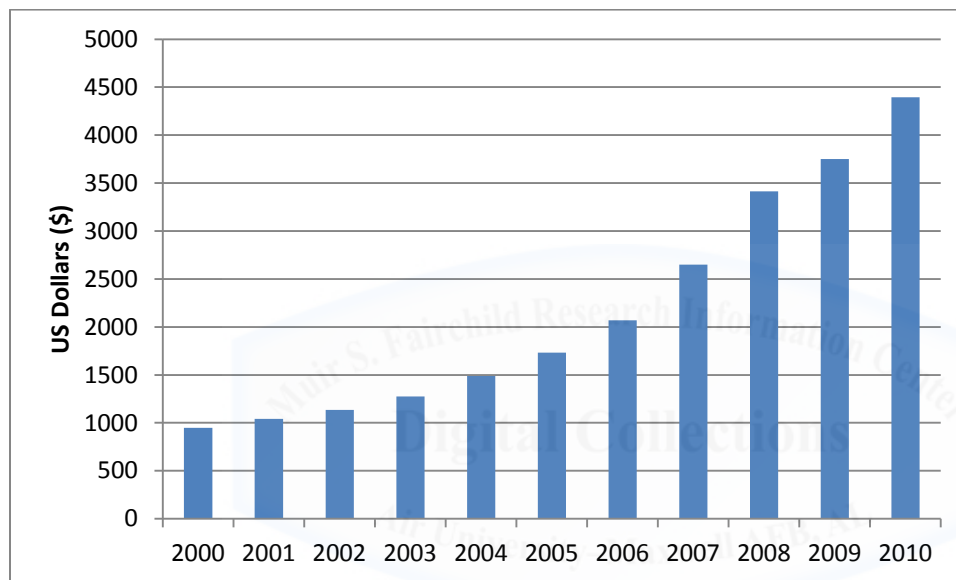


Figure 6: China's GDP per capita (in US dollars) from 2000-2010  
Data source: The World Bank<sup>82</sup>

According to The World Bank, China's high rate of growth is in part due to increased exports, which comprises one-third of its GDP (see Figure 7). Growth is further supported by its interrelated policies of undervaluing the RMB and investing in US Treasury securities, two practices heavily contested in the United States. Chinese exporters, usually paid in US dollars, are required by the government to exchange their dollars, which are then invested in US Treasury securities.<sup>83</sup> China "held \$2.85 trillion worth of foreign reserves at the end of 2010, equivalent to 48 percent of China's 2010 GDP."<sup>84</sup> US and Chinese policymakers debate the issue surrounding US Treasury securities, which further links the two economies. The US benefits from lower

interest rates, but may be allowing China leverage over its economy. China benefits by limiting inflation, but the practice does not promote growth from domestic consumption, as businesses make more money by exporting goods. A decline in either economy, either decreasing the value of the dollar or affecting the amount of holdings, would have a direct impact on the other.

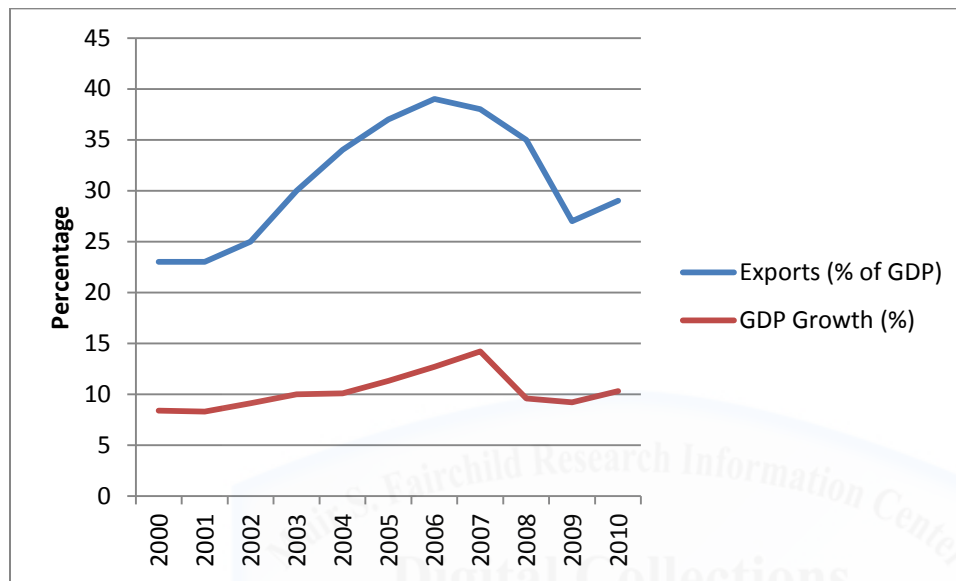


Figure 7: Correlation of China's Exports and GDP Growth  
Data source: The World Bank<sup>85</sup>

Since the global economic crisis, China is generally characterized as an economic leader with international expectations of China living up to that role. However, China's overall economic situation is still that of an emerging, "catch up," economy with a high rate of growth, but much lower standard of living and per capita income than the leading national economies of the world.<sup>86</sup> China's 2010 per capita GDP at \$4,393 is only a fraction compared to the US per capita GDP of \$47,184 or Japan's \$43,137.<sup>87</sup> China's economic imbalance is likely a major factor in its "failure to fully implement its WTO obligations," which causes trade disputes with the United States.<sup>88</sup>

China's Twelfth Five-Year Plan (2011-2015), recently implemented, expects to address the imbalances of its economic growth, while building upon previous economic successes with

continued technology upgrades and innovation.<sup>89</sup> Continued economic growth would allow China the flexibility and capital to address its domestic issues. However, a decline in growth or failure to stabilize would exacerbate its internal stability and weaken its position in world affairs.

### **Foreign Policy**

China's current foreign policy is not as easily understood and publicly articulated, as its economic five-year plans have been in recent years. Chinese foreign policy is influenced by China's ancient culture, Communist ideology, and its dependence on other nations for energy and resources. China's current international involvement and trade relations reflect its complex and ambiguous foreign policy, focused on securing energy resources and ensuring access to trade, while simultaneously trying to maintain positive perceptions and open dialogue.

The Chinese civilization has persisted for almost 4,000 years, which is a source of national pride, and a foundation for traditions still in practice today. Historically, alliances were often used to leverage relations with one foreign power against another.<sup>90</sup> According to a Library of Congress country study, this concept was central to China establishing political and economic relations with the United States in the 1970s to offset the perceived threat from the Soviet Union.<sup>91</sup> China's current relations with Iran, SCO, and ASEAN can be viewed as a modern practice of this concept, counteracting the United States politically, militarily, and economically.

The People's Republic of China was established as a Communist country in 1949 by Mao Zedong, and the Communist ideology has had a significant impact on its foreign policy. Mao instilled Communist beliefs of being self-sufficient, opposing foreign domination, and maintaining a united front."<sup>92</sup> These beliefs, combined with China's historical experiences with foreign imperialism, are evident in China's efforts to promote regional cooperation, and China's

resistance to the United States as a dominant power in Asia. China recognizes the benefit of global interdependence, but strives to maintain a level of self-sufficiency, ownership, and control, particularly with respect to energy security.

China's energy use increases with its economic growth, and its policies are governed by the economic five-year plans. In the Eleventh Five-Year Plan, China set a target to decrease energy consumption per GDP by 20 percent from 2005.<sup>93</sup> This goal is a reflection of China's growing reliance on external sources of energy. According to The World Bank, China was a net exporter of energy until 1998, when it began consistently importing a small percentage of its energy consumption.<sup>94</sup> China met the goal, reducing energy consumption<sup>95</sup> per GDP<sup>96</sup> between 2005 and 2010 by 46 percent. However, the need for more energy will grow with the economy. The International Energy Agency projected that China's energy consumption will increase 75 percent by 2035.<sup>97</sup>

China's demand for energy has a direct impact on its foreign policy, as China also strives for a level of energy independence. Concerning oil imports, China has broadened the scope of its relations with suppliers to include trade of goods and services. Chinese companies invest in energy worldwide, which gives China ownership of key resources, and aids in developing relations with the host country. Finally, China has developed renewable sources of energy, which supports self-sufficiency and positive international perceptions. China has the "highest installed capacity" of hydro and wind power in the world.<sup>98</sup>

Upon entering the international community, China has sought peaceful methods to achieve its goals. In 1979, Mao's predecessor, Deng Xiaoping, instituted political and economic reforms, specifically the Opening Up policy, which encouraged foreign trade, investments, and education.<sup>99</sup> In 1982, the Chinese Communist Party (CCP) constitution adopted the Five

Principles of Peaceful Coexistence, which includes mutual respect for territorial integrity and sovereignty, mutual nonaggression, mutual noninterference in internal affairs, mutual benefit, and peaceful coexistence.<sup>100</sup> Mutual respect for territorial sovereignty heightens territorial disputes, as China claims sovereignty and expects other nations to respect that claim. At the same time, noninterference in internal affairs allows China to form relations with countries, such as Iran and Sudan, without concern over their domestic issues. Continuing with the concept of peaceful coexistence, China published a white paper in 2005 outlining its intent for peaceful development into a powerful and prosperous nation.<sup>101</sup> In 2010, Chinese leaders further emphasized its rise as peaceful, and without expansionist ambitions.<sup>102</sup>

However, countries involved in recent maritime disputes, and several military analysts would disagree with China's peaceful assertions. This year, Japan's Defense Minister raised concerns over China's intentions, and Philippine leaders claimed China provoked maritime incidents.<sup>103</sup> In addition, an Australian Defense Force Academy professor blamed China for causing tensions in the South China Sea, and a US Navy War College professor described China's increased naval presence as the "new normal."<sup>104</sup>

### **Military Strategy**

China's military strategy, influenced by its cultural history and Communist ideology, has evolved over time due to changes in perceived threats, new leadership, and technology. The PLA's basic objective to ensure national security has not changed, but the elements that constitute national security now extend beyond physical boundaries to vague areas, such as politics and cyberspace. Historical and ideological influences could provide some insight into the debates surrounding China's claims of a peaceful rise.

China's military strategies can be traced "back to the earliest days of recorded history," of which Sun Tzu's writings have influenced military leaders, such as Mao Zedong.<sup>105</sup> Sun Tzu, an ancient Chinese military strategist, provided guidance on military strategy, tactics, and intelligence for both conventional and asymmetrical warfare. During the rise of the PRC, Mao's military strategy included guerilla and conventional warfare that used economic, political, and psychological means.<sup>106</sup> China's "three warfares" concept utilizes the non-military aspects of PLA combat capabilities: psychological, media, and legal. Psychological warfare demoralizes military personnel and the civilian population; media warfare utilizes international public opinion; and legal warfare relies on international law, to dissuade adversary action.<sup>107</sup> The three warfares were officially adopted by the CCP as part of the PLA's political work in 2003.<sup>108</sup> Political work includes the specific guidelines and missions that subordinate the PLA to the Communist Party, and ensure mission accomplishment.

Historically, the Chinese military has been under civilian control during peacetime, supported the rise of new leaders during times of turmoil, and then subordinated to civilian control again. The PLA, established as the military arm of the CCP in 1927, adheres to this historical principle, but the PLA's loyalty is to the Party, not to an individual.<sup>109</sup> Therefore, the PLA is subordinate to the Party in peacetime, and would support the interests of the Party, rather than a new power, during times of turmoil. In 2004, President Hu Jintao specified and expanded the PLA's role as part of the "Historic Missions of the Armed Forces in the New Period of the New Century." The PLA is charged with safeguarding the Party, national development, national interests, and world peace.

To fulfill the historic missions, the PLA follows the Active Defense strategic guidance. In the 1930s, Mao developed "active defense" to defeat a superior enemy by positioning forces

strategically for both protection, and to facilitate offensive operations against the weakest enemy units first.<sup>110</sup> During Xiaoping's military reforms in the late 1970s, Chinese strategists expanded Mao's concept to defend against a Soviet invasion by positioning forces forward near the border.<sup>111</sup> In the early 1980s, the PLA Navy developed the maritime version of Active Defense, called Offshore Defense.<sup>112</sup>

Active Defense strategy is a defensive military policy with, if attacked first, the guarantee of a counter-offensive. According to the tenets, the PLA focuses on the enemy's weaknesses, and places no limits on boundaries, space or time. The PLA "will wait for the time and conditions that favor our forces when we do initiate offensive operations".<sup>113</sup> The notion of deliberate action, rather than immediate reaction is long-standing and recorded by Sun Tzu: "He will win who, prepared himself, waits to take the enemy unprepared."<sup>114</sup> Mao's writings on defensive warfare also favor a patient, but active approach: "conserve our strength and bide our time in order to defeat the enemy, to lure him in deep and prepare for our counteroffensive."<sup>115</sup>

However, China's Active Defense strategy is more complex than modernizing its military infrastructure and waiting to be attacked. China's perceptions of warfare and "first strike" differ from US views. Consistent with the non-military and non-kinetic aspects of warfare, such as the "three warfares," China could characterize political or legal actions as an enemy attack, if perceived as a direct threat to China's national security.<sup>116</sup> Sun Tzu wrote that "supreme excellence consists in breaking the enemy's resistance without fighting."<sup>117</sup> This quotation could be interpreted as using peaceful means, such as diplomatic. However, its location in the forefront of the chapter on attacking by subterfuge, and the goal of "breaking enemy resistance," lends support to non-kinetic means of warfare.

China considers cyber warfare as a non-military method, which is likely used to justify its departure from Active Defense in the cyber domain.<sup>118</sup> China is suspected in numerous attacks on US Government and commercial computer systems since 2004.<sup>119</sup> In one high-level incident, China was suspected of infiltrating Google infrastructure; stealing information, accessing accounts of human-rights activists, and the networks of 33 companies.<sup>120</sup> China's response to accusations of the Google cyber espionage: accused Google of violating Chinese law (legal warfare), accused the US Government of human rights violations and misuse of commercial enterprises (psychological warfare), and a Chinese news agency wrote that the US was meddling in Chinese affairs (media warfare).<sup>121</sup>

China's unique, seemingly ambiguous, views on warfare extend to claims of its peaceful rise. Despite increased international involvement, China's perspective is steadfastly myopic. China considers increased patrols in the Western Pacific, and enforcement of maritime delimitations as peaceful, because China is merely transiting its own territory. China deems its anti-access/area denial and power projection capabilities as peaceful due to the sovereign right for every nation to defend itself. Sun Tzu taught "to rely not on the likelihood of the enemy's not coming, but on our own readiness to receive him; not on the chance of his not attacking, but rather on the fact that we have made our position unassailable."<sup>122</sup>

Section two describes China's modernization efforts, but China relies on a combined instrument of power approach to be unassailable. Economically and politically, China's decisions strengthen its position domestically and globally, while maintaining a level of advantage or establishing leverage. As China improves its role and perceptions in the international community, it shapes the environment for legal and media warfare. On the

psychological front, China keeps the world guessing to its intent as it switches back and forth from cooperative to indignant to aggressive.

China's economic growth could strengthen its national confidence towards using military means to achieve strategic objectives, such as "defending national sovereignty and territorial integrity; and securing China's status as a great power."<sup>123</sup> China's increased economic development may coincide with increased international involvement, resulting in a cooperative foreign and military policy. Regardless, research indicates that China will continue its efforts to upgrade its national defense and power projection capabilities.

China's economic policies are designed to promote continued development towards achieving the ultimate goal of an economic power. China's foreign policies leverage relationships and political position to secure national interests, such as prestige, energy, and trade. China's military policies are in place to secure domestic Communism, and progressing technologically. Although the degree and nature of China's policies are uncertain, China's established goal is to become an economic, political, and military power.

### **US Policy Concerning China**

To provide additional context on how China's policies impact the United States, this literature review looks at relevant US policies and current events. Due to China's ambiguous foreign policy, US policies concerning China are a paradox of cautious cooperation and overt suspicion. Furthermore, the current US financial situation is a significant factor in current and future US-China relations.

According to the US *National Security Strategy*, the United States "welcome a China that takes on a responsible leadership role" consistent with US and international priorities.<sup>124</sup> However, the United States considers China's controversial foreign relationships, questionable

trade practices, and domestic human rights concerns to be inconsistent with responsible leadership. Taiwan remains a divisive issue. In accordance with the three Joint Communiqués and the Taiwan Relations Act, the United States opposes China or Taiwan taking unilateral action, while also supporting Taiwan's self defense capability.<sup>125</sup> It is important to note, though, that China considers US arms sales to Taiwan as a direct violation of the aforementioned agreements.<sup>126</sup> Concerning the South China Sea, the United States also opposes unilateral action in resolving territorial disputes. In June 2010, the US Secretary of State explained to an ASEAN regional forum that the South China Sea is a US national interest, and that the United States supports a diplomatic resolution in accordance with international law.<sup>127</sup>

Economically, the United States and China are interdependent for maintaining growth in trade, and the value of their currencies. According to statements by the US Treasury Secretary, the economic strengths of the United States and China are complementary.<sup>128</sup> In fact, the United States anticipates Chinese economic growth to result in increased exports and American jobs.<sup>129</sup> Due to investments in US Treasury securities, China depends on a strong US economy and the value of the US dollar. However, the US does not benefit from China's undervalued currency, which creates a trade imbalance, and causes the US market to be less competitive. On 11 October 2011, the US Senate passed a bill on currency manipulation, which if China were found in violation, would impose a tariff on certain Chinese imports.<sup>130</sup> This bill only adds fuel to the fire, since earlier in October 2011, the WTO denied China's appeal to overturn a 2009 US decision to impose tariffs on imported Chinese tires.<sup>131</sup> Currently, there are 17 US-China trade disputes filed with the WTO; 11 complaints made by the US, and six by China.<sup>132</sup> Both the US and Chinese media raise concerns of a US-China trade war.

The United States considers China a military priority both as a potential threat, and as a potential global partner. Since 2000, the *National Defense Authorization Act (NDAA)* requires the “Annual Report on Military and Security Developments Involving the People’s Republic of China” to affect US strategy and military activities.<sup>133</sup> In the *NDAA for Fiscal Year 2010*, the fact that Russian-developed advanced air defense systems were exported to China supported the continued development of a next generation bomber aircraft.<sup>134</sup> The *NDAA for Fiscal Year 2011* identified China as a potential strategic competitor due to its military modernization.<sup>135</sup>

In contrast, the *Quadrennial Defense Review* describes China’s growing influence as the “most consequential aspect” of the Asia Pacific and promotes “reducing mistrust” and “reinforcing mutual interests” with China.<sup>136</sup> The US national military strategy promotes US-China military-to-military cooperation, but a recent report to Congress explained how both countries use cooperative military relations as a form of leverage, ceasing contacts during times of dispute.<sup>137</sup> Most recently, in 2010, China protested US arms sales to Taiwan by ceasing military-to-military relations with the United States for eight months.<sup>138</sup> In July 2011, US and Chinese military leaders met in China and agreed to discuss operational safety issues, conduct a joint counterpiracy exercise later in 2011, and joint humanitarian and disaster relief exercises in 2012.<sup>139</sup> The recent US decision not to sell new F-16s to Taiwan was likely intended to maintain the positive momentum with China.<sup>140</sup> However, the decision may not appease China, since the United States still plans to sell Patriot missiles, Black Hawk helicopters, and communications equipment to Taiwan. China’s Defense Ministry spokesman stated that future US-China military cooperation will be hindered by arms sales to Taiwan.<sup>141</sup> On the other hand, US critics of the F-16 decision argue that the action does not support ally Taiwan, and that producing and selling new F-16s would generate hundreds of American jobs.<sup>142</sup>

Unlike China's remarkable recovery from the global economic crisis, the US economy continues to struggle, which influences US-China relations. The Chinese media have questioned US economic responsibility and credibility as a global leader due to increasing US debt.<sup>143</sup> The United States places greater emphasis on issues affecting American jobs and trade imbalances, such as those with China, the second-largest trading partner. The United States remains concerned with the possibility of a hostile, expansionist China, but proposed US defense budget cuts threaten near and long-term future capabilities to maintain power projection and engagements in multiple theaters.<sup>144</sup> Additionally, US military modernization programs are at risk, which could degrade unit and individual ability "to maintain a technological advantage on the battlefield."<sup>145</sup>

The United States perceives China as a potential global partner, economic competitor, and strategic threat. US policies related to China are very specific as to what constitutes acceptable or threatening behavior, but the US economic situation is a factor in fully enforcing policy or countering a threat to US national security.

### **Previous Scenario-Planning Projects**

Of interest to this research were one Air Force and one National Intelligence Council scenario planning research projects, which included China. Both projects utilized multiple participants for brainstorming and collaboration, and relied on experts in their field for varied educated perspectives. The analysis and futures in sections four and five were created independently of these two previous scenario-planning projects. However, juxtaposing the created futures and specified indicators with recent history and current events provides an opportunity to look at trends and track the likeliness of a particular future.

In 1996, an Air University hosted long-range planning project, Air Force 2025, yielded *Alternate Futures for 2025: Security Planning to Avoid Surprise*.<sup>146</sup> The report was a product of over 200 participants, including futurists and scientists, who conducted extensive research, brainstorming, and analysis to extrapolate detailed alternate futures.<sup>147</sup> Relevant to this research was the alternate future called King Khan, in which the world superpower is a conglomerate of Asian countries led by China. In the plausible history considered, the United States suffered a significant recession, attempted to fix with a federal spending surge, incurred a national debt over \$10 trillion, and cancelled the F-22 project.<sup>148</sup> Although the details of the recession, and government decision-making differed from the plausible history, currently, the United States is in a very similar situation. In the plausible history, China and other Asian countries gradually cooperate militarily, politically, and economically, which ultimately leads to the RMB as the defacto international currency standard and a new superpower.

In 2008, the National Intelligence Council published *Global Trends 2025*. The report was a collaborative result of input from US and non-US intelligence, government, academic, and other key specialists.<sup>149</sup> The predicted 2025 global landscape is described as a “global multipolar system” with “new rules of the game,” and a transition away from Western political and economic models.<sup>150</sup> *Global Trends 2025* projected that by 2025, China would be the second-largest economy, largest importer of natural resources, biggest polluter, and a leading military power.<sup>151</sup> As a comparison, China is currently the second-largest economy in 2010. China became the second-largest net importer of oil,<sup>152</sup> and coal<sup>153</sup> in 2009, and is expected to soon be the largest importer of thermal coal.<sup>154</sup> China has been the largest producer of greenhouse gases since 2007, and is on track to be the leading nation of per person emissions by 2017.<sup>155</sup>

This cursory look at *Air Force 2025* and *Global Trends 2025* indicate that China is on track to emerge as a global power. The next section will analyze and establish the critical uncertainties of China's developing economic power.



## Section 4: Driving Forces

Driving forces are changing elements and shaping influences. Driving forces are classified as either predetermined elements or critical uncertainties. Predetermined elements are relatively unchanged, while critical uncertainties are unpredictable forces.<sup>156</sup> In scenario planning, the critical uncertainties are the foundation for developing scenarios, or futures. This section identifies and classifies the major driving forces surrounding China's economic development, and potential impact to the United States.

From the literature review in section three, the following five driving forces emerged: China's ability to sustain its economy, the nature of China's foreign policy, the degree of China's energy security, the nature of China's nationalism and the nature of China's military modernization efforts.

To classify the driving forces, they are compared and prioritized according to the degree of importance to the research question, and the degree of uncertainty of the driving force.<sup>157</sup>

Table one summarizes the major driving forces surrounding China's economic development and impact to US national security. Those of low uncertainty are classified as predetermined elements, and those of high uncertainty are classified as critical uncertainties.

Driving Forces	Importance	Uncertainty	Classification
China's ability to sustain economy	High	Medium	Relative Uncertainty
Nature of China's foreign policy	High	High	Critical Uncertainty
Degree of China's energy security	High	High	Critical Uncertainty
Nature of China's nationalism	High	Low	Predetermined Element
Degree of China's military modernization efforts	High	Low	Predetermined Element

Table 1: Prioritization and Classification of Driving Factors

The two critical uncertainties selected for creating possible futures are China's ability to sustain its economy, and the degree of China's energy security. Although China's ability to

sustain its economy is considered of medium uncertainty, it is the primary factor to continued economic development and a strong, stable economy. The impact of China's economy on the US economy is of high importance. China's foreign policy is heavily dependent on its energy security, and nationalism. China uses its foreign policy to pursue energy security, and promote nationalism, which influences US-China relations. Therefore, China's economy and foreign policy are the most significant critical uncertainties to this research.

The framework for creating possible futures puts the selected critical uncertainties on crossing axes (see Figure 8).<sup>158</sup> China's ability to sustain its economy is reflected as having a weak versus a strong economy. The nature of China's foreign policy is reflected as being cooperative versus uncooperative. Cooperative describes a foreign policy in which China relies primarily on economic and political means, and complies more with international standards. In contrast, uncooperative describes a foreign policy in which China pursues its own interests to the detriment of the international order, and utilizes its military instrument of power.

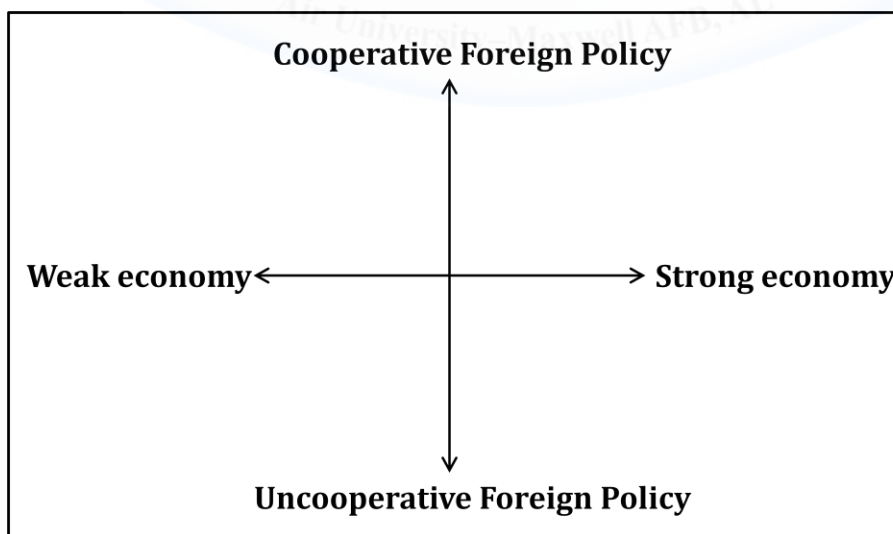


Figure 8: Framework of Selected Critical Uncertainties

This research uses the following predetermined elements to establish a baseline, and maintain a level of consistency among the possible futures. China's military modernization is

classified as a predetermined element. Research indicates that China will continue its efforts to upgrade its national defense and power projection capabilities. The following public assertions made by the United States, China, and Taiwan are considered additional predetermined elements. As described in the US *National Security Strategy*, the United States maintains its alliances, economic and security interests in Asia.<sup>159</sup> China maintains a Communist government, for as President Hu Jintao said at an anniversary gathering, “Success in China hinges on the Party.”<sup>160</sup> As Taiwan’s President Ma Ying-jeou's stated in his National Day Address, Taiwan maintains the status quo of “no unification, no independence, and no use of force.”<sup>161</sup>

The next section develops four possible futures that could result from China’s economic and foreign policy decisions. Each future maintains the predetermined elements of US and Chinese national interests. The developed futures will describe possible courses of action, and the resultant impact to US national security.

## Section 5: Four Futures

Based upon the critical uncertainties of China's foreign policy, and ability to sustain its economy, this study developed four possible futures. The futures are not as multi-dimensional or dynamic as real-world events. However, they were developed to maintain the predetermined elements of US and Chinese national interests, and to reflect the trends in Chinese decision-making and policies. The possible futures provide a unique opportunity to "experience" the effects of China's developing economy on US national security.

### The Matrix of Possible Futures

The target future date is 2025, which was chosen for three reasons. First, the previous scenario-planning projects developed by the Air Force and National Intelligence Council looked at the year 2025. However, both *Air Force 2025* and *Global Trends 2025* were published prior to the significant events of 2008, which accelerated China's economic rise. Secondly, China uses the year 2020 as its primary benchmark for "innovation-oriented society" and modern military force.<sup>162</sup> Finally, proposed defense budget cuts include annual reductions through fiscal year 2021. Developing policy, settling disputes peacefully, and planning military action all take time. The year 2025 allows a realistic future timeline, a second-look at previous planning, and the impacts of Chinese and US policies to set in.

Four scenarios were developed from the framework in section four, and the intersecting uncertainties of China's economic and foreign policy decisions (see Figure 9). Each scenario describes a likely US-China situation in the year 2025, a timeline of events from 2011-2025, and the potential impacts to US national security. In Supported Slump, China pursues a cooperative foreign policy, which initially results in economic decline, but then gradually recovers through the support of the international community. In Competitive Coalition, China maintains a strong

economy and a cooperative foreign policy, but focuses primarily on regional alliances. In Totalitarian Threat, China develops into a strong economy, and determines to pursue own interests, rather than kowtow to Western standards. Finally, in Isolated Instability, China is unable to sustain its economy, and in dealing with internal unrest, slowly withdraws from the international system. This section explores these futures in more detail to determine the impacts to US national security, and the likelihood of a comparable future actually occurring.

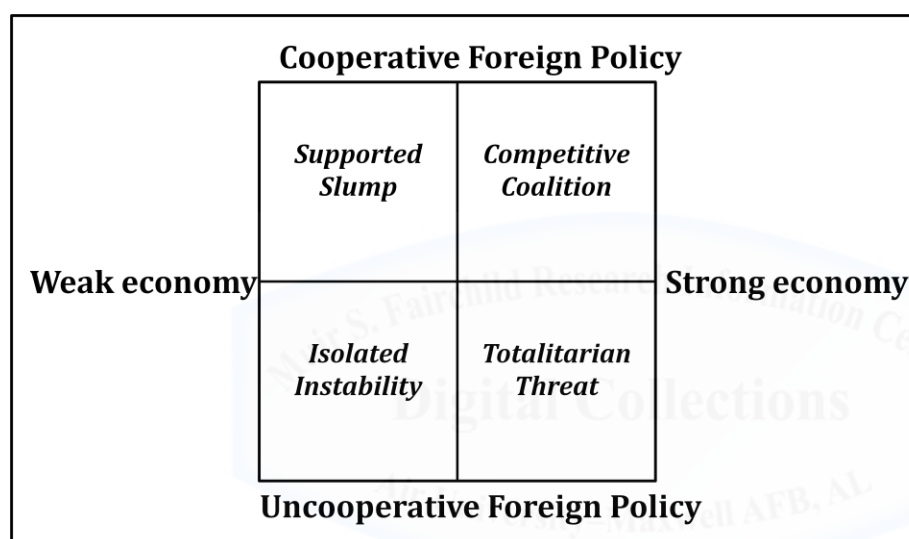


Figure 9: Matrix of Possible Futures

### Supported Slump

In the Supported Slump future, China pursues a cooperative foreign policy to prevent a potential trade war with the United States. Initially, the policy change results in an economic decline. However, China relies on cooperation with regional neighbors and the international community to prevent further inflation and support recovery. In 2025, China is a responsible global partner, but its currency rivals the dollar.

**Timeline from 2011-2025:** In 2011, China faces rising inflation, increased regional tensions over maritime incidents, and continued conflict with the United States over the value of the RMB. In 2012, displeased with US resolve to sell arms package to Taiwan, China cancels

the projected US-China military cooperation, and maintains increased military presence in the South China Sea. The United States continues discussions of a currency manipulation bill. China responds by imposing tariffs on certain US imports, which is countered with additional US tariffs on certain Chinese imports.

In 2013, the US and Chinese leadership transitions occur amidst a US-China trade war, and growing tensions in the Asia Pacific. China decides to manage international perceptions and prevent further impact to its own economy. China agrees to appreciate the RMB at a more rapid, but controlled rate. China announces the appreciation with pride as consistent with its Twelfth-Five Year Plan to rebalance the economy and stabilize growth. Initially, China experiences significant economic setbacks. Appreciating the RMB makes exports more expensive to trading partners, so China's exports decrease which negatively impacts Chinese businesses, and increases unemployment.<sup>163</sup> However, the slowdown in growth supports China meeting its quantitative target to maintain an average of seven percent GDP growth, which is touted as another Chinese economic success.

China increases compliance with international standards to benefit from financial aid packages to support economic recovery. In addition to economic compliance, China improves perceptions by reporting UNCLOS violations, rather than handling unilaterally. China increases the number of personnel deployed in support of UN peacekeeping operations, and international anti-piracy missions. Military modernization continues on track, increasing naval power projection, and China completes production of its first aircraft carrier in 2015.<sup>164</sup>

In 2016, China publishes its Thirteenth Five-Year Plan (2016-2020) with the first-ever focus on international cooperation, and the projected goal to internationalize the RMB by 2025. China sells the remainder of its short term US Treasury securities, and increases exports to

countries that settle in RMB, such as Russia, Belarus, Mongolia, Nepal, North Korea, South Korea, ASEAN members, Argentina and Iceland.<sup>165</sup> Although officially disclosed military expenditures are still lower than US estimates, China finally submits its data to the UN on the Standardized Reporting Form, which provides greater detail and transparency.<sup>166</sup> China's increased international military support and peaceful resolutions lessen concern that China is a threat.

By 2020, the United States, EU and Japan are China's only trading partners that do not settle trade in RMB. China's significant role in UN peacekeeping overshadows continued domestic issues, and relations with countries such as Iran and Sudan for energy resources. The fifth generation J-20 stealth fighter is operational and in production for export.

In 2025, China is still the second-largest economy in the world. The International Monetary Fund, the World Bank, and the G-20 begin discussion on which currency should be used as the international standard.<sup>167</sup>

**Potential US national security implications:** Appreciation of the RMB is a political victory for the United States, and does increase competitiveness of the US trade market. Without the low-cost Chinese goods and services, costs for US products also increase, which initially reduces domestic spending. However, with a level playing field, US exports to other countries increase, and US reliance on exports to China decrease. China's diplomatic foreign policy and increased peacekeeping in the Asia Pacific lessens both the need for US presence and the burden of fulfilling peacekeeping and humanitarian responsibilities. China's continued military modernization efforts are seemingly transparent, and justifiably necessary due to its increasing role as a global peacekeeping nation. China's peaceful rise provides no impetus for the United States to pursue defense and military modernization over reducing the federal budget and

strengthening the US economy. The individual services revamp their spending and processes to shift the monetary and man-hour savings toward upgrading and modifying existing weapon systems.

In 2025, the US economy is stabilized with the lowest federal deficit since 2001. However, the US military is a small and highly specialized force, capable of conducting specific, short-term operations, such as non-combatant evacuations.<sup>168</sup> The United States can defend the nation, but cannot support multiple operations for the defense of its allies, nor for a counteroffensive.

**Probability of Supported Slump:** It is highly unlikely that China would agree to appreciate the RMB. However, the influence of China's growing international involvement, and move to settle in RMB is likely. Global Trends 2025 considers the US being "less dominant" as a relative certainty with the likely impacts of "shrinking economic and military capabilities may force the US into a difficult set of tradeoffs between domestic versus foreign policy priorities."<sup>169</sup>

### **Competitive Coalition**

In the Competitive Coalition future, China pursues a cooperative foreign policy to counter increased doubts of its peaceful rise. However, disillusioned with the WTO over its consistent support of US tariffs on Chinese imports, China pursues closer regional ties rather than reliance on the international system. In 2025, China is an established regional economic and military power.

**Timeline from 2011-2025:** In 2011, China's policies maintain economic stability, but exacerbate tensions in the South China Sea over maritime incidents, and with the United States over trade disputes. The WTO rejects China's appeal to overturn US imposed tariffs on Chinese tires imported into the United States. Then US legislation pushes a currency manipulation bill,

which if China were found in violation would result in tariffs on additional Chinese goods imported into the United States. When the United States decides not to sell new F-16s to Taiwan, China holds its ground and rejects the US attempt at appeasement. China cancels the scheduled US-China counterpiracy exercise, and threatens to cancel the 2012 US-China military engagements.

Proponents of the US currency manipulation bill highlight China's revocation of US-China peaceful military cooperation to increase doubts of China's peaceful rise and garner support for further legislation. China is concerned with the economic impacts of a trade war and increased tensions with regional neighbors, but is disillusioned with the international system, particularly with the WTO for consistently supporting US-imposed tariffs on Chinese goods. China resumes military cooperative efforts with the United States, but proposes the inclusion of ASEAN. In 2012, the United States, China, and several members of ASEAN hold discussions on operational safety, and conduct a humanitarian exercise. The RMB appreciates ten percent relative to the dollar, which is on track to balancing its value against the dollar by 2015.<sup>170</sup>

In 2013, the Chinese leadership transition occurs amidst continued economic growth, increasing concerns for energy security, and cooperative relations with the United States and ASEAN. China continues to pursue regional diplomatic and multilateral agreements to promote peaceful development and allay concerns of hostile intent. China does not cede claims to disputed territories in the South China Sea, but coordinates with ASEAN to establish joint development zones by 2014. To further energy security, China continues efforts to establish a free trade agreement with the Gulf Cooperation Council, of which Saudi Arabia, Oman, and Kuwait are among China's top oil suppliers.<sup>171</sup> Military modernization resumes, and in 2015,

China's first aircraft carrier makes its maiden voyage during the first joint China-ASEAN counter-terrorism exercise.

In 2016, China's Thirteenth Five-Year Plan (2016-2020) is published with a specific focus on China's role as a regional economic and military leader. China increases imports of oil and gas from SCO nations, and cross-border pipelines counterbalance the importance of the sea lanes to transport energy resources.<sup>172</sup> China continues to invest in US Treasury securities, and exports to the United States, but imports from the US reduce as China increases imports from ASEAN member countries.<sup>173</sup>

By 2020, China and ASEAN member nations agree to further economic and military cooperation by merging into the Association of China and Southeast Asian Nations (CASEAN). Eighty percent of China's military is comprised of modern platforms, which now includes two aircraft carriers and a fifth-generation aircraft.

In 2025, CASEAN as an entity is the largest economy in the world. Chinese arm sales overtake Russia in third-world and developing nations.<sup>174</sup> China and Taiwan enter into the first-ever discussions of "one country-three systems" peaceful reunification.<sup>175</sup>

**Potential US national security implications:** Increased military to military contacts with China improves US-China relations, prevents a trade war, and reduces the number of complaints filed with the WTO. However, increased US-China relations also result in a more passive US-Taiwan stance. The United States sells the arms package to Taiwan in 2012, but follow-on defense support is relegated to refurbishment of existing equipment. Although US support to Taiwan wanes, the United States increases military contacts and cooperation with China, Japan, and South Korea. The latter two remain concerned of China's rise. US defense budget cuts have significant, but not detrimental impact, as costs associated with operations in

Iraq and Afghanistan greatly reduce with redeployment of forces. Military modernization programs focus primarily on asymmetrical and naval power projection capabilities. China's economic and military rise encourages growth and corporate competition. Additionally, Japan and South Korea increase arms purchases, which create additional jobs. However, China's increased regionalism and shift in trade affects the US trade market, which must rely more on domestic consumption and exports to non-CASEAN nations.

In 2025, the US economy is stabilized but still maintains a large federal deficit. The United States still boasts the most capable military force in the world, but has reduced capabilities to respond to multiple military operations, or sustain for long periods of time.

**Probability of Competitive Coalition:** Competitive Coalition is a very probable future, as China currently pursues regional cooperation to boost China's role as a regional leader. Competitive Coalition is similar to the *Air Force 2025* future King Khan, where an Asian conglomerate rises out of economic recession as the world superpower.<sup>176</sup> Global Trends 2025 lists Chinese cooperation with international infrastructure as a critical uncertainty, but with the potential consequence of "Asian integration" leading "to more powerful regional institutions."<sup>177</sup>

### **Totalitarian Threat**

In the Totalitarian Threat future, China has a stable economy and uses foreign policy as a means to ensure national security interests at all costs. In 2025, China is a direct threat to US national security, and the world is dividing along US-China loyalties.

**Timeline from 2011-2025:** In 2011, China faces rising inflation, increased regional tensions over maritime incidents, and continued conflict with the United States over the value of the RMB and trade disputes. The United States and China banter back and forth over tariffs, and arms sales to Taiwan, but neither government commits to a policy that significantly impacts US-China relations.

In 2013, China welcomes new leadership with a stable economy, and growing confidence in its position regionally and globally. However, increased economic growth continues to widen the rural-urban income gap, hitting a new peak each year. The number and size of protests increase as the Chinese people expect the new leadership to fix the problem. The CCP pursues highly visible displays of Chinese power to divert attention away from domestic problems and promote Chinese nationalism. China conducts two military exercises in the Western Pacific: Jialong 2013 with China's Marine Corps,<sup>178</sup> and Peace Mission 2013 with Russia in the East China Sea.<sup>179</sup>

In 2014, the CCP celebrates the 65<sup>th</sup> anniversary of the People's Republic of China. Consistent with previous PRC leaders, the new President announces his slogan, "the Great Purpose" to unify the country and provide a central theme for his policies. The ceremony closes with a fly-by of the J-20. Due to increased tensions in the South China Sea, the new US President decides to sell the F-35 to Taiwan. China ceases military cooperation with the United States, and signs free trade agreements with Iran and Syria. Peace Mission 2015 includes China's first indigenously produced aircraft carrier.

China maintains participation in UN peacekeeping operations, but continues to withhold details of modernization efforts. US-China trade relations are strained as each country pursues efforts to establish more independent economies. Concerned with China's aggressive nature, ASEAN shifts trade from China to the United States. China, on the other hand, capitalizes on its technological advances and begins arms sales to Iran, Syria, Pakistan, and African nations. China has a reduced surplus, and invests in energy resources in Central Asia and Africa.

By 2020, the arms race in Asia is well underway, and increased Chinese, US, and ASEAN naval presence hinders freedom of movement in the South China Sea. In 2025, the

relevance of international institutions is in decline as the world is divided among US and China loyalties. China is a threat to US national security.

**Potential US national security implications:** The redeployment of US forces from Iraq and Afghanistan are diverted to US Pacific Command to address the increased tensions in Asia. However, the United States is forced to increase the defense budget to resume key modernization programs, and mobilize the Reserve force to sustain long-term presence in Asia. The issue of China's holdings of US Treasury securities becomes a non-issue as both nations recognize that drastic reductions would financially collapse both nations. However, the United States refuses to sell additional securities directly to China, who obtains them from third-parties to maintain a stake in the US economy.<sup>180</sup> As trade partnerships shift, the US-China trade imbalance reduces. American companies initially benefit from the shift in partnerships, but instability in the Western Pacific raises costs of all trade into and out of the region.

In 2025, US national security is threatened. The federal deficit is at a new high due to increases with the defense budget, and US interest rates increase. US trade and ally interests in the Western Pacific are under constant threat. The United States assumes a heightened homeland defense posture, since China's strategic power projection capabilities can attack the United States via missiles, or cyberwarfare.

**Probability of Totalitarian Threat:** Totalitarian Threat is possible, though not likely. Increasing political propaganda and military exercises are probable Chinese responses to promote nationalism, or signal disagreement with US or international decisions. However, China has benefited economically from its international involvement the last three decades and is not likely to pursue a hostile unilateral agenda unless the international environment is perceived as threatening.

## Isolated Instability

In the Isolated Instability future, China's economy, still heavily dependent on its export market, suffers from the US and EU failure to fully recover from the global economic crisis. Due to economic decline, and domestic unrest, China pursues bilateral relations and arms sales, but reduces international involvement. In 2025, China does not abide by international standards for trade, and the nation suffers from a struggling economy and domestic instability.

**Timeline from 2011-2025:** In 2011, China faces rising inflation, increased tensions in the South China Sea, continued trade disputes with the United States, and renewed unrest in Tibet over ethnic oppression and human rights abuses.<sup>181</sup> Concerned with the potential impact of continued unrest, and to maintain control over sovereign territory, China increases security measures in Tibet, and publicly speaks out against the "Dalai Lama's provoked violence."<sup>182</sup> China then moves to distract the international community with US-China disputes over trade, value of the RMB, and arms sales to Taiwan.

In 2012, the EU's failure to fully recover from the global economic crisis significantly reduces trade with China.<sup>183</sup> Towards stabilizing its own economy, the United States imposes a tariff on Chinese textile imports, which further reduces the demand for Chinese exports. China announces the economic slowdown as consistent with the Twelfth-Five Year Plan target to stabilize the economy. However, the rural-urban income gap continues to widen, which results in renewed protests over the inequality. By 2014, due to increased domestic instability and financial risks, investors lose confidence in the Chinese market and pull out. Similar to the Asian Financial Crisis in 1997, the financial decline in one Asian country has a domino effect on the others, particularly of ASEAN member nations. The Asian recession puts additional pressure on Western economies, and the world is now in the Global Economic Crisis of 2015.

China reduces support to UN peacekeeping from thousands to hundreds. Drawing on bilateral relations with other Eastern hemisphere countries, China looks to increase exports to Iran, Syria, India, and Russia. To increase revenue any way possible, China capitalizes on its technology and renews arms sales with both Iran and Syria. China pegs the RMB to the dollar at a fixed low rate, and establishes value-added taxes on computer-parts exports to the United States. US-China relations are not civil, and both cease military cooperation. China is suspected in numerous cyberattacks on US government and corporate computer networks.

By 2020, China's economy is still in recovery, but China proudly announces the J-20 as operational, and unveils its first indigenously produced aircraft carrier. US allies in the region maintain concerns of Chinese aggression over territorial disputes and request continued US presence and cooperation. Reports of terrorist camps in Sudan and Iraq heighten concerns of an asymmetrical threat.

In 2025, China's foreign policies resemble those of the 1970s before China fully embraced the international community. Trade relations with the west are hindered by protectionist taxes. Domestic instability in China is high.

**Potential US national security implications:** Investors pull out of the Chinese market, and shift to the US market, which creates new jobs. The reduction in low-cost imports boosts domestic consumption, which further improves the US economy. However, the success is short-lived due to another global economic crisis, and American businesses suffer due to decreased exports to China. The US recovery occurs as the asymmetrical threat from China, and Middle Eastern terrorism is on the rise.

In 2025, the US military is significantly degraded due to the impacts of both global economic crises. Military modernization programs were delayed until the US recovery began in

2017. The Active Duty military force was significantly reduced, and reliance on Reserve forces increases. The military is a small, capable force for national defense, and small short term operations.

**Probability of Isolated Instability:** Isolated Instability is not likely. China has benefited economically from its international involvement the last three decades. In the event of economic decline, China is more likely to increase international cooperation.



## **Section 6: Conclusion and Recommendations**

The established purpose of this research was to determine the potential consequences of China's economic growth on US national security. In section two, this study identified how China's economic development currently impacts the US economy, and influences China's foreign policy as reflected in its international involvement and expanding military mission. The scenario planning framework was then used to identify the trends and uncertainties of China's national policies, possible outcomes of China's decision-making, and the ensuing impact to US national security. This section concludes with the summary of findings, areas which require further research, and recommendations for future US policy and position on China.

### **Summary of Findings**

From the literature review, this study determined that China's national policies are designed to further its national interests to preserve Chinese Communism, and to develop into a modern, powerful nation. China leverages its foreign relations and political positions to secure its economic, political, or military interests. However, China's ability to sustain its growing economy and whether China uses cooperative means to accomplish its goal remain uncertain. The possible futures explored in section five provided a unique opportunity to "experience" the effects of China's differing decisions on US national security.

Regardless of economic sustainment, or nature of foreign policy, China emerged as a power in each future. In Supported Slump, China is a responsible global partner and economic power. In Competitive Coalition, China is a regional and global power. In Totalitarian Threat, China is a global military threat. In Isolated Instability, China poses an asymmetrical military threat.

However, according to the futures, the nature of China's foreign policy did influence US policy and the future of the US military. In the Supported Slump and Competitive Coalition futures, China pursued a cooperative foreign policy. China's increased international involvement and compliance with the international system allays doubts of its peaceful rise. In both futures, the United States perceives no reason to overturn reductions in the defense budget, which results in a small US military force with degraded power projection and sustainment capabilities. In contrast, the Totalitarian Threat China pursues an uncooperative foreign policy. To address the increasing threat, the United States cancels defense reductions, increases the national deficit, and the US military force remains capable, modern, and ready.

Similarly, the struggling US economy is a determining factor in how China impacts the United States. In Isolated Instability, the severe US economic decline cannot support any increase in military spending. Despite the asymmetrical threat from China, the future posits a small US military force due to severe budget reductions. In the other three futures, the struggling US economy was the reason for cuts in the defense budget.

Additionally, China's economy and policy decisions affect the US economy. In Isolated Instability, the US economy declined with China's recession due to US reliance on exports to China. In the other three futures, the United States experiences short-term decline, but long-term economic growth, when China pursues economic independence from the United States. However, increased regionalism in Competitive Coalition, and regional instability in Totalitarian Threat negatively impact US trade.

In summary, this study shows that China's emergence as a power is inevitable. China's economic and foreign policies influence US policy. US economic dependence on China increases risk of economic decline, while independence from China's economy can promote

long-term US growth. However, shifts in trading partners or regional instability can negatively impact trade. US economic strength and perceptions of China influence US policy on military planning and the defense budget, impacting future military capabilities and the ability to counter a future strategic threat.

### **Areas of Further Research**

This study focused on China's instruments of power, but gave very little attention to its significant information instrument of power. Dedicated research on China's "three warfares" and cyberwarfare strategies would provide valuable insight into China's employment of information warfare, how it enhances other instruments of power, the resultant impact to the United States, and how the United States could address challenges.

Amidst US defense budget cuts and a struggling economy, this research assumed a middle ground of projected reductions. Further research on actual projected impacts of cutting the defense budget is critical to determine how the United States can maintain military preeminence to face any major threat.

Finally, many studies are currently available on the economic implications to the United States of China's economic stability, holdings of US Treasury securities, and the undervalued RMB. However, additional research would be useful to explore specific options for the United States, and individual businesses to reduce and balance reliance on China's low-cost products.

### **Recommendations**

Based on the summary of findings, US policies and decision-making can shape and manage the degree, and possibly the nature, of China's influence on the United States. Currently, the United States views China as a potential global partner, and a potential threat. US policies concerning China are specific, but policy implementation can be reactive, rather than

deliberately planned for a purpose. With American idealism, the US approach to China is influenced by the hope that China will eventually conform to the international standard and democratic way of life. This study recommends a shift in US views and methods to ensure effective and timely employment of US policy.

First and foremost, the United States must recognize that China is a current strategic competitor. China has been a political strategic competitor, since gaining a permanent seat on the UNSC in 1971. Trade disputes aside, China emerged as an economic strategic competitor in 2009 as the second-largest global economy. China's technological military advances, secrecy over military expenditures, and skill in cyberwarfare also make China a military strategic competitor. US leaders should not plan for "when" or "if" China becomes a strategic competitor, rather US policy should reflect how to address current and future challenges posed by China.

The United States must understand its own role in shaping perceptions. The United States can influence the nature of China's rise by controlling US responses, and making decisions with long-term effects in mind. In light of China's views of the United States as a hegemonic threat, the United States should utilize international law, standards and organizations as much as possible to settle disputes with China. The United States maintains international support and credibility, which supports the US intent of promoting international norms, peace, and stability. Regardless of China's long term intent, US multilateral actions, specifically with Asian countries, should improve perceptions of the US and minimize propaganda opportunities for China. Additionally, the United States should continue to seek common ground with China and encourage cooperative efforts.

The United States must accept that US-China relations will conflict as long as national interests diverge. China's desire to develop into a great nation is not unique, and does not

necessarily have to be feared. China has benefited from its international involvement, and is not likely to gain from violent warfare and international mistrust. However, due to differences in cultural, ideology, and historical experiences, China has different perceptions of warfare and is highly sensitive to being publicly disrespected, ignored, or countered. On the other hand, China will not show weakness, and will leverage an instrument of power at its disposal to achieve its goal, even if the goal is merely to save face in the international community. US leaders should expect a negative response from China, if a US decision is not in China's favor. US leaders must determine the acceptable risk, and find the balance between US national interests, maintaining favorable US-China relations, and maintaining leverage for future US-China relations.

The United States must maintain military presence and cooperation in Asia. As China improves its anti-access, area denial and power projection capabilities, US presence is even more important to assure allies and strengthen claims that the region is of US national interest. Although tensions with China may increase, US presence bolsters the national confidence and military capabilities of US regional allies, who then encourage China to conform to international standards. Additionally, the United States can use existing regional cooperation as opportunities to include Chinese military participation.

Finally, the United States must reduce economic dependence on China. Importing low-cost Chinese goods reduces the competitiveness of American businesses, does not create new jobs, nor encourage quality products. Additionally, the trade imbalance and undervalued RMB further hinders US competitiveness, while increasing tensions in US-China relations. Reliance on China to continue purchasing and maintaining large holdings of US Treasury securities promotes further increases in the federal deficit, and gives China a significant part in influencing US economic policy. Balancing trade with China and diversifying trade partners may initially

increase prices and reduce US domestic spending, but the resulting return of a competitive US market will have long-term economic benefits.

In conclusion, China is a rising regional and global power. China's decisions and policies influence the current global order and can impact US national security. China is both a potential threat and a potential global partner. However, most importantly, China is a current US strategic competitor.



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